

**COUNTY OF MILWAUKEE  
INTER-OFFICE COMMUNICATION**

**DATE:** May 10, 2011

**TO:** Chris Abele, County Executive  
Supervisor John Thomas, Chairman, Committee on Finance and Audit

**FROM:** Pamela Bryant, Capital Finance Manager

**SUBJECT:** **Comparison of Negotiated and Competitive Bond Sale Methods**

On March 10, 2011, the Finance and Audit Committee directed the Department of Administrative Services, County Board Staff, Audit, along with the County's Bond Counsel and Financial Advisor to study the merits of a negotiated sale instead of a competitive bid process and provide the findings at the May 2011 meeting.

**DEFINITIONS**

The two methods of selling municipal bonds are through competitive sale (public sale) and negotiated sale (private sale).

**Competitive Bond Sale Method**

In a competitive sale, bonds are advertised for sale in trade publications and web sites. A notice of sale that includes the terms of the sale and a Preliminary Official Statement providing additional details about the County are made available to all interested underwriting firms. Based upon this information, any underwriting firm may bid on the bonds at the designated date and time. The bonds are awarded to the bidder with the lowest true interest rate.

**Negotiate Bond Sale Method**

In a negotiated sale, an underwriter is selected through a request for proposal process to purchase the bonds. Upon selection, the underwriter sells the bonds to its clients based on negotiated terms to meet the needs of its clients and the issuer. There is also a pre-sale process that provides an opportunity to determine client's interest in the sale prior to establishing final terms and bond pricing.

**SALE METHOD COMPARISON**

Wisconsin State Statute 67.08(2), states that, with some exceptions, bonds are to be sold publicly. A public sale is a competitively sold bond sale. A private sale is a negotiated bond sale. Refunding bonds and revenue bonds can be sold through either a competitive or negotiated bond sale method. Wisconsin State Statutes does not specifically state that promissory notes are to be sold competitively; therefore, they are sold through both the competitive and negotiated bond sale method.

Competitive bond sales offer several advantages over negotiated sales. For general obligation debt, the competitive sale typically assures the lowest interest rates available on the day in which the bonds are bid. While underwriting firms may attempt to secure the best interest rates for the issuer, different firms have different perceptions of the market and cater to various investing clients. This results in different preferences for maturities and yields, which contribute to the variety of the bids received competitively and increases the likelihood that the winning bidder will be the lowest possibly bid for the sale. The bids are received electronically and the bidders are unable to view each others bids until the bidding time has expired. This process ensures the objectivity of a competitive sale.

In accordance with Wisconsin State Statutes, Milwaukee County utilizes the competitive bond sale method for its general obligation bond sales. Airport Revenue Bond sales, which are more complicated, are sold on a negotiated basis. Underwriters would be unwilling to purchase the bonds without a thorough understanding of the revenue sources, bond covenants, lease arrangements and feasibility analysis associated with the bonds. In addition, the underwriter's clients tend to respond best to negotiated sales for revenue bond issues knowing that the underwriting firm has undertaken the due diligence necessary to understand the bonds.

Some of the industry reasons for using the negotiated bond sale method are the poor credit quality, unusually large issue size, new issuer to the bond market, unusual financing terms, innovative structure or security, and market volatility. The County has followed this logic for deciding when to use the negotiated bond sale method. In addition to the County's Airport Revenue Bond issues, the County sold the pension obligation bonds on a negotiated basis because the financing was an exceptionally large size issue for the County (\$400 million), there was an unusual structure and there was market volatility. Therefore, the County, as has every other large issuer of pension obligation bonds, decided to use the negotiated bond sale method to sell these bonds.

#### **RECOMMENDATION**

This is an informational report.



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Pamela Bryant, Capital Finance Manager

cc: County Executive Chris Abele  
Chairman Lee Holloway, Milwaukee County Board of Supervisors  
George Aldrich, Chief of Staff, County Executive's Office  
E. Marie Broussard, Deputy Chief of Staff, County Executive's Office  
Terrence Cooley, Chief of Staff, County Board  
Steve Cady, County Board Fiscal and Budget Analyst